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# Review of the efficiency of the administrative and financial functioning of the United Nations

# Report of the Secretary-General on the activities of the Office of Internal Oversight Services

## Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the audit of the Second United Nations Conference on Human Settlements.

2. The Secretary-General takes note of the findings contained in the report and concurs with its recommendations.

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# Annex

## Report of the Office of Internal Oversight Services on the audit of the Second United Nations Conference on Human Settlements

*Summary*

### A. Introduction

In 1992, the General Assembly, by its resolution 47/180 of 22 December 1992, decided to convene the Second United Nations Conference on Human Settlements (Habitat II). The Conference was held in Istanbul, Turkey in June 1996. The Office of Internal Oversight Services (OIOS) conducted an audit of Habitat II from September 1996 to March 1997, with the objectives of assessing the adequacy of the financial controls over the Conference, and the effectiveness of the Habitat II secretariat in preparing for the Conference.

### B. Results in brief

OIOS acknowledges that the Habitat II secretariat played a successful role as facilitator and coordinator of the Conference and thus contributed to the achievement of the Conference's objectives. The Conference also received recognition from Member States, non-governmental organizations and the media. However, OIOS was concerned about the breakdown of internal controls over the financial management and financial reporting of Habitat II.

The Habitat II secretariat resorted to extensive hiring of consultants and paid significant amounts of money in consultancy fees without having the benefits of competitive bidding and, in some cases, with little value received in return. Conference expenditures were shifted to, and money borrowed from, other funds in order to reduce the Conference's reported financial deficit. The audit also disclosed instances of incomplete accounting for donors' contributions, delayed preparation of financial statements and inadequate financial accountability.

In the opinion of OIOS, the expenditures of Habitat II, of $8.5 million, and the financial deficit of $0.3 million reported for the period ended 31 December 1996, were significantly understated, and the financial statements for the period ended on that date were unreliable. The United Nations Centre for Human Settlements now estimates that the Conference's financial deficit is in the range of $2 million.

## C. Recommendations

OIOS recommends that the United Nations Centre for Human Settlements:

- Recalculate the total expenditures and deficit as at 31 December 1996, and make additional efforts to realize outstanding pledges and, if possible, raise additional contributions from donors;
- Submit a comprehensive report to the United Nations Controller on the financial performance of Habitat II since its inception, and seek approval from the legislative bodies on how to cover the remaining Conference deficit;
- Take appropriate measures to improve internal controls, in general, and financial management, in particular, in order to be better prepared for future conferences.

OIOS also recommends that the Department of Management review the current rules governing the employment of recipients of United Nations pensions as individual and corporate consultants, with a view to strengthening the enforcement of the policy that restricts the remuneration of United Nations retirees.

The Centre's management has already commenced implementation of the recommendations of OIOS and has established an Audit Committee to monitor their implementation status. The Department of Management had no comments on the present report.

## Contents


| | | Paragraphs | Page |
|---|---|---|---|
| I. | Introduction | 1–3 | 5 |
| II. | Preparation for the Conference | 4–6 | 5 |
| III. | Hiring of consultants | 7–21 | 5 |
| | A. Contract with the Deputy Secretary-General of Habitat II | 8–12 | 6 |
| | B. Contract with a retired United Nations staff member | 13–16 | 6 |
| | C. Expensive consultancies of questionable value | 17–19 | 7 |
| | D. Hiring of consultants for extended periods | 20–21 | 7 |
| IV. | Travel of senior officials | 22–29 | 8 |
| V. | Establishment of trust fund accounts | 30–32 | 9 |
| VI. | Delayed preparation of financial statements | 33–34 | 9 |
| VII. | The Conference's financial deficit | 35–51 | 9 |
| | A. How the borrowing started and management's justification | 35–37 | 9 |
| | B. Lack of concrete programme proposals or cost plans to support budgetary requirements | 38–40 | 10 |

| | | | |
|---|---|---|---|
| | C. Conference expenditures charged to other funds | 41–44 | 10 |
| | D. Actual expenditures and deficit | 45–48 | 11 |
| | E. Commission on Human Settlements | 49–51 | 11 |
| VIII. | Inadequate financial accountability | 52–56 | 12 |
| IX. | Conclusions and recommendations | 57–58 | 12 |

# I. Introduction

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Second United Nations Conference on Human Settlements (Habitat II) from September 1996 to March 1997. The objectives of the audit were to assess the adequacy of the financial controls over the Conference, and the effectiveness of the Habitat II secretariat in preparing for the Conference. The audit was carried out in accordance with the General and Specific Standards for the Professional Practice of Internal Auditing in United Nations Organizations, and the findings and recommendations were communicated to the United Nations Centre for Human Settlements in a report dated 4 September 1997. Comments received from the Centre in October 1997 and February 1998, and from the former Secretary-General of Habitat II in January 1998 were taken into account in preparing the present report and are shown in the text in italics. The Department of Management had no comments on the present report.

2. The General Assembly, by its resolution 47/180 of 22 December 1992, decided to convene Habitat II and established an ad hoc secretariat for the Conference. The objectives of Habitat II were to increase the world's awareness of the problems of human settlements and potentials for more sustainable living conditions; to arrest the deterioration of global human settlements and ultimately facilitate the achievement of improved settlement conditions for all; and to formulate a global plan of action capable of guiding national and international efforts through the first two decades of the next century. The Conference was convened in Istanbul, Turkey, from 3 to 14 June 1996.

3. The Habitat II 1994-1996 budget for preparatory activities and support to the participation of developing countries was estimated at $9.4 million. Income and expenditures for the same period were reported at $8.2 million and $8.5 million, respectively, and in-kind contributions were reported to be $16.5 million. The Conference reported a deficit of $0.3 million.

# II. Preparation for the Conference

4. From March 1993 until February 1994, the Executive Director of the United Nations Environment Programme acted as Officer-in-Charge of the United Nations Centre for Human Settlements, a role that included the early planning for Habitat II. In February 1994, the Secretary-General of the United Nations appointed an Assistant Secretary-General as the Secretary-General of Habitat II. The Habitat II secretariat served as the facilitator and coordinator for the Conference and was responsible for the preparatory process therefor. The secretariat's core team included seven staff members from the Centre, and was later complemented with other Centre staff members and externally-recruited staff. In order to ensure the integration of Habitat II preparatory activities into the work of the Centre's three programme divisions, the Acting Director of Programme Coordination was assigned responsibility for guiding the substantive preparations of the Conference. Eventually, almost half of the Centre's staff in the Professional category was involved in the preparatory activities, which included in-country preparation, documentation, information and awareness-building, organizing, and mobilizing partners.

5. The substantive outcome of the Habitat II Conference is embodied in two major documents adopted by the Conference: the Istanbul Declaration on Human Settlements[a] and the Habitat Agenda.[b] The Istanbul Declaration on Human Settlements expressed the political commitment of the heads of State and delegations participating at the Conference to implement the Habitat Agenda. The Habitat Agenda adopted a set of goals, principles, commitments and a global plan of action, based on interrelated strategies for implementation.

6. The Habitat II secretariat's preparatory activities facilitated the adoption of the Habitat Agenda and thus contributed to the achievement of the objectives established for the Conference. Habitat II received positive attention from the media and the public. The Secretary-General, Member States and non-governmental organizations viewed the Conference as a successful event. OIOS also noted that the fund-raising efforts of the former Secretary-General of Habitat II raised significant amounts of voluntary cash and in-kind contributions that were needed to help finance the Conference.

# III. Hiring of consultants

7. Fees paid to consultants and consulting firms represented a significant portion of the costs of the Conference. Total consultancy fees for Habitat II amounted to $2.5 million, $1.6 million (or 64 per cent) of which were funded from the Habitat II trust fund. The remaining balance of $0.9 million was financed with funds from the United Nations Habitat and Human Settlements Foundation (hereinafter the Foundation) and from the regular budget of the United Nations. Many of the consulting contracts were entered into without the benefits of competitive bidding and

some of the consultancy services were of questionable value, as discussed below.

## A. Contract with the Deputy Secretary-General of Habitat II

8. In 1994, a Brazilian national was appointed Deputy Secretary-General of Habitat II, a position equivalent to the D-2 level. The Deputy Secretary-General was hired under a reimbursable loan agreement signed between the United Nations Centre on Human Settlements and a consulting firm owned by him. The agreement, effective 4 April 1994, was for a period of 12 months at a monthly fee of $15,000, payable to the consulting firm. The initial term was later extended to 15 October 1996, resulting in total payments of $457,000. These costs were charged to the Foundation's accounts under a project ("Funding of Deputy Secretary-General post for the secretariat of Habitat II") approved by the then Officer-in-Charge of the Centre.

9. According to the Habitat II secretariat, the monthly fee had been calculated on the basis of staff costs for a D-2 staff member. However, OIOS noted that 25 per cent overhead costs were added to the staff costs to arrive at the agreed monthly fee. Although the agreement was entered into between the United Nations and the consulting firm and the fee was to be payable to the company, OIOS determined that the monthly payments were actually made to the Deputy Secretary-General's personal bank account.

10. By using a reimbursable loan agreement with the firm owned by the Deputy Secretary-General, rather than a fixed-term personnel contract, the Centre incurred additional costs (25 per cent overhead) estimated by OIOS at nearly $100,000. Furthermore, although the agreement was with a consulting firm and involved significant fees, the contract was not competitively bid, contrary to United Nations procurement policies. Moreover, in the opinion of OIOS, since the entire $457,000 of consulting fees was directly related to the Conference, it was not proper to charge this amount to the Foundation's accounts. This view was also expressed by the Board of Auditors. As a result of the audit, these costs were eventually reversed back to the Habitat II trust fund in October 1997 (see para. 43).

11. *The United Nations Centre on Human Settlements management indicated that the secretariat required a high-ranking official as the Deputy Secretary-General of the Conference to direct and coordinate the substantive preparations, as well as to maintain liaison with the international community at large, and that the Deputy Secretary-General was competitively selected and appointed to the post by the Secretary-General of the United Nations. Management further stated that the Deputy Secretary-General could only be hired under a fixed-term appointment at the D-2 level or a reimbursable loan agreement/corporate contract, and that the Deputy Secretary-General had opted for the latter arrangement. Moreover, the Centre stated that the additional costs incurred for overhead were overestimated by OIOS.*

12. OIOS wishes to note that the Deputy Secretary-General of Habitat II was appointed on the recommendation of the then Officer-in-Charge of the Centre, after negotiations between the Centre and the nominee that took place in December 1993 and January 1994. No documentation was made available at the time of the audit to support the statement that the Deputy Secretary-General's appointment was based on a competitive selection process. OIOS further notes that ST/SGB/177 of 19 November 1982 provides that the use of a reimbursable loan agreement was intended for obtaining the services of technical cooperation personnel hired as national experts. The use of a reimbursable loan agreement/corporate contract for hiring the Deputy Secretary-General of the Conference did not meet these criteria. Therefore, the Deputy Secretary-General should not have been given this option.

## B. Contract with a retired United Nations staff member

13. In its 31 July 1996 report to the General Assembly on the accounts of the United Nations Habitat and Human Settlements Foundation and Habitat II, for the biennium ended 31 December 1995,[c] the Board of Auditors reported that a media consultant who was in receipt of a United Nations pension was awarded contracts in 1994 in the amount of $30,000 for work on the Preparatory Committee for Habitat II. In order to continue his work with Habitat II, the consultant later joined a private agency which was awarded fund-raising consultancy contracts, and was paid a total amount of $85,000 for a seven-month period ending in February 1995. In June 1995, the services of this consultant, who had by then joined another agency, were again obtained through a corporate contract. Payments under this contract, which was retroactive from March 1995 and extended several times through March 1996, totalled $156,000. The Board concluded that, according to United Nations rules, this consultant, being a recipient of a United Nations pension, was not entitled to receive more than $12,000 from the United Nations in any calendar year. The

Board indicated that, since the corporate contract with the consulting firm was exclusively for providing the services of the United Nations retired staff member as a media consultant to Habitat II, it had been used to circumvent the United Nations rules regarding payment of remuneration to retirees.

14. Although the Board of Auditors had reported the irregularities observed in the above contractual arrangement before the media consultant's contract was to end on 31 March 1996, the contract was nevertheless extended to 31 July 1996 under a reimbursable loan agreement, thereby increasing the contract value to $204,000. Total payments for the work of this consultant under the different contracts amounted to $325,000.

15. OIOS noted that, while the current rules impose restrictions on the remuneration of United Nations retirees who are hired as "individual" consultants, there are no restrictions with regard to those retirees who are employed under "corporate" contracts. OIOS believes that this gap has led to circumvention of the rules, thus violating their spirit. OIOS therefore believes that the existing rules should be reviewed to determine how the policy goal of restricting the remuneration of United Nations retirees can be achieved. OIOS is also concerned that, although the total amount of the extended corporate consulting contract was substantial ($204,000), it was not competitively bid as required under United Nations procurement policies.

16. The audit further revealed that the media consultant was an editor of a newspaper published by a firm that was awarded a contract for media services for Habitat II in Istanbul. The contract, which amounted to $88,704, was also awarded without competitive bidding. The newspaper had previously received media service contracts in 1995 and early 1996 for a total amount of $153,579, also without competitive bidding.

## C. Expensive consultancies of questionable value

17. The agency which provided the services of the above-mentioned media consultant also provided the services of another consultant who served as a Special Advisor to the Secretary-General of Habitat II. The services of this consultant were obtained under a reimbursable loan agreement for the period from 6 November 1995 to 6 February 1996. The agreement was then extended to 30 September 1996, for a total amount of $78,835. According to his terms of reference, the consultant was to identify American-based foundations interested in funding the production of a report on Habitat II to be published in book form, with the objective of raising $100,000 for Habitat II. The audit determined that the consultant did not raise any funds and that the proposed book was never published. In the view of OIOS, the Habitat II secretariat had failed to link the consultant's fees to the success of his activities.

18. In another case mentioned in the Board of Auditors' report,[d] a company was contracted by the Habitat II secretariat for fund-raising activities and management consultancy to the Secretary-General. The first contract, covering the period July to August 1994, was awarded without competitive bidding. The contract was not presented to the local Committee on Contracts, since the amount involved was below the $70,000 ceiling. The second contract was entered into in September 1994 for an amount of $273,000, again without competitive bidding. The latter contract was brought to the attention of the Committee on Contracts on an *ex-post facto* basis in November 1994. The Committee, in its meeting of 17 November 1994, only took note of the decision to award the contract to this company.

19. The purpose of these contracts was to raise $22 million in cash and in-kind contributions for Habitat II. However, the contractor's efforts generated contributions of only $30,000. The contract with this company ended in February 1995 and was not renewed. *The management of the United Nations Centre on Human Settlements stated that the contractor's liaison role had facilitated obtaining a commitment of $250,000 from a Member State and a contribution of $1 million from the World Bank.* However, the Board of Auditors noted that the contractor's role was mainly confined to arranging two meetings between officials of the Centre and the Member States concerned. The Board did not find any evidence to support the statement that the World Bank's contribution of $1 million was owing to the efforts of the contractor.

## D. Hiring of consultants for extended periods

20. ST/SGB/177 and ST/AI/295-297 stipulate that the services of an individual as a consultant or an individual contractor should be limited to six months in any period of twelve consecutive months. This period can be extended to nine work-months with the approval of the Office of Human Resources Management. The Habitat II secretariat hired some consultants for durations far exceeding the established limits. For example, nine management consultants were recruited as senior advisors, for the period from early 1994 to the middle of 1996, for a total of more than $1 million in

consulting fees, not including overhead and travel costs. Of this amount, $657,000 was charged against the Habitat II Trust Fund and $370,000 was charged against the regular budget of the United Nations.

21. OIOS believes that the award of expensive consulting contracts for long periods without the benefit of competition, and the questionable value of the services provided by some consultants, are indications that there was a breakdown in the system of internal financial controls, inadequate planning and poor financial management.

## IV. Travel of senior officials

22. The audit disclosed that, in 1995 and 1996, the Secretary-General of Habitat II was on travel status, away from Nairobi, for more than 80 per cent of his time. During the most intensive period of travel, between June 1995 and March 1996, he was present at the duty station in Nairobi for only 10 working days. Most of his time was spent in New York. His travel costs totalled approximately $370,000.

*23. The United Nations Centre on Human Settlements management stated that it should be understood that Secretaries-General of United Nations conferences are expected to undertake several missions in order to sensitize various Member States and relevant participants. Furthermore, management indicated that the Secretary-General of the Conference had informed the Executive Office of the Secretary-General of the United Nations of his travel plans and, in the absence of a response, it had been assumed that there were no reservations concerning his travel.*

24. *The former Secretary-General of Habitat II stated that any judgement of his travel load should take into account the context of the Habitat II Conference, that is, the very limited time available to organize this Conference (which was less than half the time normally allocated for the preparation of similar United Nations conferences held in the past decade) and severe funding constraints. The Secretary-General also stated that he had had to work from New York because New York was considered to be the central place for the mobilization of the Conference, and that the period from June 1995 to March 1996 had represented the most intensive stage of the mobilization process.*

25. While OIOS acknowledges that the preparation of the Conference, including the fund-raising activities, required extensive travel of the Secretary-General of Habitat II, OIOS also believes that his functions, both as Secretary-General of the Conference and as Assistant Secretary-General responsible for the day-to-day management of the Centre, required more than a minimal presence at Nairobi.

26. The Deputy Secretary-General of Habitat II also travelled extensively, spending more than 50 per cent of his time on travel status. He visited the city of his permanent residence seven times on official travel (in May, August and November 1994; December 1994-January 1995; May and October-November 1995; and December-January 1996). The total cost of the Deputy Secretary-General's travel was approximately $210,000.

27. During the Deputy Secretary-General's mission to Brazil, from 8 December 1994 to 27 January 1995, he took annual leave. The reason stated for the trip was "meeting with members of the new National Government and National Committee". It was also noted that, while on a mission to Stuttgart, Germany, "to discuss round tables" from 25 July to 10 August 1995, the Deputy Secretary-General spent only two days on official mission, and the remainder of the trip (10 days) on annual leave. During an official mission to Brazil, the United States of America and Europe, which took place between 26 September and 23 November 1995, the Deputy Secretary-General travelled to his home city twice on official mission and once on annual leave. The purpose of the two official missions was not documented. The Deputy Secretary-General continued to travel at United Nations expense in November 1996 after the Conference had ended and his contract had expired on 15 October 1996.

28. *The management of the United Nations Centre on Human Settlements indicated that no charges had been made against United Nations funds during the Deputy Secretary-General's annual leave, and that, in all cases, the objectives of his missions had been discussed with and approved by the Secretary-General of the Conference, on the basis of their relevance to the Habitat II preparatory process. Management explained the frequency of his missions to Brazil as follows: During the preparations for the Conference, the Habitat II secretariat targeted the support of "specific countries chosen for their influence in their regions, their political weight on the international scene, their population and the importance of their policy in the field of human settlements". Brazil, the largest and most urbanized country in Latin America, was one of these countries, together with China, India and South Africa. Moreover, management stated that the Deputy Secretary-General's missions to Brazil proved crucial to Brazil's participation in the preparatory process and the Conference.*

29. OIOS noted, however, that, in contrast to the seven trips undertaken to his home country, the Deputy Secretary-General travelled to China and India only once and never to

South Africa, despite its "political weight on the international scene, their population and the importance of their policy in the field of human settlements", as mentioned above by management.

## V. Establishment of trust fund accounts

30. General Assembly resolution 47/180 had called for the establishment of two trust funds for the Habitat II Conference, one for funding the preparatory process of the Conference and the other for supporting the participation of developing countries. This would have required establishing two separate accounts. However, since the inception of the Habitat II Conference, all its financial transactions were recorded under one account.

31. The United Nations Centre for Human Settlements management stated that it had not received any information or guidance from the Programme Planning and Budget Division of the Office of Programme Planning, Budget and Accounts on the establishment of the trust funds for Habitat II. However, the audit determined that the Division had already communicated the required information to the Habitat II secretariat as early as December 1992.

32. Based on instructions from Headquarters, the Habitat II secretariat separated the already recorded financial transactions for the biennium 1994-1995 under two separate accounts starting in August 1996.

## VI. Delayed preparation of financial statements

33. In October 1996, OIOS requested the Habitat II secretariat to submit the financial statements as at 30 June 1996 for audit review. The United Nations Centre for Human Settlements management advised, however, that the Finance Section which relied on information from the Fund Management Office, had not yet received the necessary information to produce the financial statements as at 30 June 1996. When the financial statements were finally submitted in late October 1996, they were found to be incorrect. Corrected financial statements as at 31 December 1996 were not provided to OIOS until April 1997, after the audit was completed.

34. Evidently, a lack of coordination between the Fund Management Office and the Finance Section was responsible for the delays in the preparation of the statements.

## VII. The Conference's financial deficit

### A. How the borrowing started and management's justification

35. Since the inception of Habitat II, pledged contributions were not being realized as expected, and the Habitat II secretariat regarded the funding from the regular budget of the United Nations as being insufficient. Therefore, the secretariat charged certain expenditures relating to the preparation for the Conference against the Foundation. This practice started in early 1994, when the then Officer-in-Charge of the United Nations Centre for Human Settlements approved several projects to be funded by the Foundation. These included the funding of the Deputy Secretary-General's post, the High-level meetings for the preparatory process of Habitat II and the Preparatory Committee I meeting. Subsequently, some Habitat II expenditures were continuously charged against the Foundation's funds. The Centre's management informed the Board of Auditors that, as at 31 December 1995, Habitat II had "borrowed" $0.9 million from the Foundation to help finance the Conference. OIOS was informed by the United Nations Office at Nairobi that it had reversed many Habitat II expenditures originally charged to the Foundation's accounts, and had reimbursed the Foundation the amount of $0.9 million.

36. *The Centre's management stated that General Assembly resolution 47/180 required that the preparatory process and the Conference itself be funded through existing budgetary resources and voluntary contributions. Although non-earmarked voluntary contributions to the Conference were not available before September 1994, the Habitat II secretariat had had to commence its preparatory activities early in 1994, otherwise it would not have been able to fulfil its mandate. According to management, the only existing budgetary resources available at that time were non-earmarked Foundation funds. Management also stated that its authority to use Foundation funds for Habitat II was derived from financial rule 303.1 (b) of the special annex to the Financial Rules of the United Nations.* OIOS noted, however, that the Office of Legal Affairs rendered an opinion on the Habitat II funding arrangements in February 1996, stating that the utilization of Foundation funds was not authorized by the General Assembly, since its resolution 47/180 listed the sources for funding the preparatory process and Habitat II Conference without reference to the Foundation.

37. *Management further indicated that the resources provided for Habitat II under the regular budget of the*

*United Nations were significantly less than those provided to other conferences. The resources provided were even less than those allocated to Habitat I, which was held in 1976, and resources available for experts and consultants were significantly lower than those made available for other conferences, such as the Conference on Population and Development, held in Cairo, the Social Summit, held in Copenhagen and the Fourth World Conference on Women, held in Beijing.*

## B. Lack of concrete programme proposals or cost plans to support budgetary requirements

38. The Preparatory Committee for Habitat II, in its report to the General Assembly, dated 25 July 1995,[e] expressed concern about the insufficient level of contributions to the trust funds and requested the General Assembly allocate, within existing United Nations budgetary resources, sufficient funds to cover the costs of general temporary assistance, advisory services, secretariat operations, communications, consultants, information dissemination, and miscellaneous expenses for the period October 1995 to July 1996.

39. The Programme Planning and Budget Division indicated that, on the basis of the submission of the United Nations Centre for Human Settlements to the 1996-1997 proposed programme budget, $677,000 was proposed to the General Assembly under the Centre's budget section for the preparatory process leading up to the Conference. OIOS was further informed that the recommendation of the Preparatory Committee was not the subject of a statement of programme budget implications because: (a) funds were already allocated in the programme budget, and (b) no concrete proposals or activities were contained therein for consideration of additional resources.

40. Furthermore, under the Procedures for the establishment and management of general trust funds (ST/AI/284, annex, of 1 March 1982), the implementing office of a trust fund is required to submit to the Programme Planning and Budget Division a request for an allotment on the basis of a cost plan. In May 1996, the Centre submitted a proposal to the Division requesting the establishment of two trust funds for the Habitat II Conference. However, according to the Division, the Habitat II secretariat never submitted a cost plan for use of the $8.2 million in voluntary contributions donated to the Habitat II Trust Fund and, as a result, no allotments had been issued by the Division for the use of these extrabudgetary funds. OIOS believes that the expenditure of funds by Habitat II without first receiving an allotment from the Division represented a breach of United Nations financial regulation 10.2, which provides that no obligations shall be incurred until allotments have been made in writing under the authority of the Secretary-General.

## C. Conference expenditures charged to other funds

41. The audit determined that consultancy fees paid to the Deputy Secretary-General of the Conference ($457,000) were charged against the Foundation. OIOS further noted that, in March 1997, expenditures totalling $426,000, which were originally charged to Habitat II accounts, were subsequently shifted out and charged to the Foundation accounts upon instruction from the Secretary-General of Habitat II.

42. Furthermore, the Habitat II secretariat transferred an amount of $250,000 of the residual Trust Fund balance of the International Year of Shelter for the Homeless, to the Habitat II Trust Fund, in order to cover part of the Conference expenditures. In doing so, the secretariat did not follow the recommendation of the Board of Auditors to transfer the entire Trust Fund balance of the International Year of Shelter for the Homeless to the Foundation's accounts.

43. *The management of the United Nations Centre for Human Settlements informed OIOS that the consultancy fees of the Habitat II Deputy Secretary-General paid under the reimbursable loan agreement were reversed from the Foundation's accounts in October 1997 and charged back to the Habitat II Trust Fund, as recommended by OIOS and the Board of Auditors. The former Secretary-General for Habitat II stated that shelter for the homeless was one of the main topics addressed by Habitat II and that the use of these funds to finance the Conference was, in his opinion, within the scope and spirit of the Trust Fund for the International Year of Shelter for the Homeless.*

44. While OIOS does not question the relevance of Habitat II for the objectives of the International Year of Shelter for the Homeless, it believes that the use of the Shelter Trust Fund for financing expenditures of the Conference would have required the approval of the Commission on Human Settlements. In this context, OIOS points out that the Commission, at its sixteenth session, held from 28 April to 7 May 1997,[f] explicitly regretted the shifting of International Year of Shelter for the Homeless funds to Habitat II.

## D. Actual expenditures and deficit

45. In view of the above-mentioned funding arrangements, OIOS concluded that the financial statements of Habitat II as at 31 December 1996 did not provide a true and complete picture of the Conference's expenditures, and did not disclose its actual financial deficit.

46. In addition to the $8.5 million worth of Conference expenditures reported in the financial statements, OIOS identified a number of Conference-related expenditures that were shifted to, and money borrowed from, other funds. These included consulting fees of the Deputy Secretary-General, totalling $457,000 and $426,000 of other Conference expenditures charged *ex-post facto* to the Foundation; and $250,000 transferred from residual funds of the International Year of Shelter for the Homeless. With limited regular budget funds and facing a shortfall in contributions income from donors, the Habitat II secretariat had evidently shifted the Conference expenditures in order to narrow the gap between the Conference's actual expenditures and income.

47. OIOS concluded that the reported expenditures of Habitat II of $8.5 million for the period ended 31 December 1996, and the reported financial deficit of $0.3 million were significantly understated, and that the financial statements provided to OIOS for the period ended on that date were unreliable. While acknowledging the difficult position of the Habitat II secretariat to arrange the Conference with very limited financial resources from the regular budget and with voluntary contributions falling short of expectations, OIOS does not regard the way chosen by the Habitat secretariat to deal with this matter as appropriate. Instead of shifting expenditures and distorting the financial statements, the Habitat II secretariat should have sought a more modest framework for preparing and organizing the Conference and made every effort to live within its means. The remaining funding gap should have been reported to the United Nations Controller and the appropriate legislative bodies, together with a comprehensive programme proposal justifying the request for additional funds and seeking authority to redeploy funds from the Foundation or other funds.

48. *The United Nations Centre for Human Settlements management informed OIOS in February 1998 that, after reversing all expenditures to the Habitat II Trust Funds as recommended by OIOS and the Board of Auditors and updating the table of trust fund contributions, it now estimates that total funds borrowed from the Foundation were in the range of $2 million. It further indicated that this amount was included in the Centre's 25 February 1998 submission to the Controller for post fac[illegible]ublishment of the Habitat II Trust Funds.* OIOS will not be in a position to verify the accuracy of the reported borrowings and final Conference deficit until the corrected financial statements of Habitat II have been submitted for audit.

## E. Commission on Human Settlements

49. OIOS further observed that the Commission on Human Settlements, at its sixteenth session, expressed its disapproval of the Foundation's funds having been used to finance the Habitat II Conference. The following is an extract from the Commission's resolution No. 16/19 of 7 May 1997:

> "*The Commission on Human Settlements*,
>
> "...
>
> "Insists that the Executive Director reimburse the United Nations Habitat and Human Settlements Foundation for any advances made to Habitat II and, noting that the decision of the Executive Director to apply a 15 per cent deduction from all non-earmarked contributions to refund the remaining balance of Habitat II is in clear contradiction to the demands of the Advisory Committee on Administrative and Budgetary Questions and the General Assembly as expressed in resolution 51/225, decides to reject that decision, and invites the Executive Director to cover the deficit in the Habitat II account in ways that do not affect the Foundation; the Commission also regrets the shifting of International Year of Shelter for the Homeless funds to Habitat II".[f]

50. OIOS feels, however, that in requesting reimbursement of any "advances" made to Habitat II the Commission was not aware of the magnitude of Conference-related expenditures charged to other funds, and of the Conference's actual financial deficit. OIOS also doubts whether the full amount of this deficit can be covered without negatively affecting the Foundation's activities. OIOS therefore believes that the Centre needs to recalculate the income, expenditures and deficit of the Conference, and that additional efforts should be made to realize outstanding pledges and, if possible, raise additional contributions from donors.

51. *The United Nations Centre for Human Settlements management agreed and stated that this recommendation would be implemented through the United Nations Office at Nairobi upon closure of the 1996-1997 biennium accounts. It further stated that renewed appeals would be made to all*

*Member States to make pledges to the Habitat II Trust Fund in order to clear the outstanding amounts owed to the Foundation.*

## VIII. Inadequate financial accountability

52. ST/AI/284 requires the implementing office of a trust fund to maintain general ledger and allotment accounts, and to report trust fund accounting transactions monthly to Headquarters. The Programme Planning and Budget Division advised that, despite their requests for regular reporting of the use of resources in the Habitat II trust funds and for a full report on the receipt of contributions and expenditures at the end of the Conference, the information communicated by the Habitat II secretariat had been insufficient to allow for the necessary analysis of Habitat II's income and expenditures.

53. The Division further advised that it was unable to analyse adequately both the contributions income and the expenditures, since the information provided by the Habitat II secretariat did not distinguish between contributions pledged and received. In addition, the Division stated that the lack of adequate information made it difficult to ascertain the amounts spent on areas such as travel, consultants and other contractors and that the Habitat II secretariat failed to meet the March 1997 reporting deadline set by the Division, which would have enabled the latter to report to the General Assembly.

54. OIOS was also concerned about the accuracy of the accounting records for Habitat II contributions income. Audit tests of the pledges and contributions received during 1995 and 1996 revealed several discrepancies between the records of the Habitat II Fund Management Office and the Finance Section. For example, amounts that were pledged and received during one financial year were recorded and shown as received in another financial year. In other instances, pledges and contributions were received according to the Habitat II Fund Management Office's records, but were shown as still outstanding in the Finance Section's records.

55. OIOS believes that adequate financial reporting was essential for the Habitat II secretariat to discharge its responsibilities and provide an accounting for its financial stewardship over the Conference Trust Fund. The lack of comprehensive, accurate and timely financial reports was, in the opinion of OIOS, an indication of poor financial management and inadequate accountability. The Centre should submit to the Controller a comprehensive report on the financial performance of the Conference. A decision should also be sought from the legislative bodies on how to cover the remaining Conference deficit.

56. *The management of the Centre responded that corrective action was under way and that the available information would be submitted to the Controller by the first week of November 1997.* OIOS was informed that, as of the date of this report, the Programme Planning and Budget Division had not received the subject financial report from the Centre.

## IX. Conclusions and recommendations

57. While the Habitat II Conference was widely acknowledged as an important and successful political event in the area of human settlements, the preparations and implementation by the Habitat II secretariat were marked by serious financial management problems, inadequate planning and by a breakdown of internal controls, leaving the United Nations Centre for Human Settlements with an uncovered deficit estimated to be in the range of $2 million. In order to address this situation and to prevent the recurrence of similar problems in the future, OIOS recommends the following:

Recommendation 1: OIOS recommends that the United Nations Centre for Human Settlements recalculate the income, expenditures and deficit of the Habitat II Conference as at 31 December 1996, and make additional efforts to realize outstanding pledges and, if possible, raise additional contributions from donors. (AS98/30/1/001)

Recommendation 2: OIOS recommends that the Centre submit a comprehensive report to the United Nations Controller on the financial performance of Habitat II since its inception, and seek a decision from the legislative bodies on to how to cover the remaining Conference deficit. (AS98/30/1/002)

Recommendation 3: OIOS recommends that the Centre take appropriate measures to improve internal controls, in general, and financial management, in particular, in order to be better prepared for future conferences. (AS98/30/1/003)

Recommendation 4: OIOS recommends that the Department of Management review the current rules governing the employment of recipients of United Nations pensions as individual and corporate consultants with a view to strengthening the

enforcement of the policy that restricts the remuneration of United Nations retirees. (AS98/30/1/004)

58. *The United Nations Centre for Human Settlements management advised OIOS that it has established an Audit Committee to monitor the implementation of the recommendations of OIOS and the Board of Auditors.*

(*Signed*) Karl Th. **Paschke**
Under-Secretary-General for
Internal Oversight Services

*Notes*

[a] *Report of the United Nations Conference on Human Settlements* (Habitat II), Istanbul, 3-14 June 1996 (A/CONF.165/14), chap. I, resolution 1, annex I.

[b] Ibid., annex II.

[c] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5H (A/51/5/Add.8), paras. 84-86.*

[d] Ibid., paras. 79-81.

[e] Ibid., *Fiftieth Session, Supplement No. 37* (A/50/37), annex I, decision II/1.

[f] Ibid., *Fifty-second Session, Supplement No. 8* (A/52/8), pp. 41-42.